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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Gasoline Prices Should Stabilize

Memorial Day marks the start of the year's peak driving season. If the recent past is any guide, between now and Labor Day motorists will drive some 20 percent more than they did earlier this year. But while the outlook for the summer's gasoline prices is not as rosy for the consumer as it was a year ago when a huge inventory overhang caused prices to plummet counterseasonally, motorists planning cross-country trips this summer need not expect skyrocketing prices, either. Despite the more than seven cent spurt since February, gasoline prices now are still only about one cent higher than they were a year ago, and when inflation is factored out, they are more than three cents lower. What is more, the sharpest price gains are probably behind us as sagging world crude oil prices and plentiful crude oil supplies should keep the summer's gain to no more than the usual seasonal advance.

The Bureau of Labor Statistics reports that energy prices in general and gasoline prices in particular were the major propellants behind last month's rise in the rate of inflation at the retail and producer levels, accounting for more than one half the overall month-over-month rise. So far this year, petroleum companies have been drawing down their inventories instead of importing oil, putting off purchases on the world markets because of expectations of continued price declines. This has tightened crude and petroleum products supplies in the United States causing an abrupt turnaround in prices—especially for gasoline and home heating oil.

Normally, gasoline stocks reach a seasonal low early in the fourth quarter of each year and then expand over the following five months in preparation for the summer driving season. This year's inventories, however, peaked early last December and now have fallen to the lowest level for this time of the year in more than a decade. But refiners say they can respond quickly to any sharp upturn in demand making shortages unlikely. For one thing, having unused production capacity readily available, they can quickly crank up operations. Second, they can buy gasoline on either the domestic or foreign spot market if necessary.

Energy Conservation Continues . . .

To be sure, total domestic consumption of petroleum products dropped by nearly one percent in the first four months of the year from 1984's 15.9 million barrels a day. However, only one major refined product category is responsible for this decline. Demand for residual oil—a heavy oil used primarily for electric power generation and for industrial and commercial space heating—plummeted by 21 percent during the January-April interval, year-over-year. By the end of April, consumption had reached the lowest level in more than 20 years.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,002		579		15.5
1982	9,533		587		16.3
1983	9,641		577		16.7
1984(e)	9,817		569		17.3
1985(f)	10,008		568		17.6

(e) – estimate
(f) – forecast
Sources: Federal Highway Administration; MH estimate

This is because industrial companies—a growing number of which are more flexible in the type of fuel they can use—have been switching to fuels other than petroleum. Over the past several years, many companies have installed dual fuel boilers which enable them to take prompt advantage of changes in fuel prices. Electric utilities accounted for most of the drop in demand for residual fuel despite stepped-up electricity generation, substituting coal for petroleum. Residual fuel is by far the most expensive input used for electricity generation. On average, residual fuel cost the nation's utilities $4.81 per million BTUs in 1984—up from $4.58 in 1983. Coal, however, cost $1.66 and natural gas $3.58 per million BTUs. In response, petroleum's share of

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inputs fell from nearly 18 percent in 1973 to less than five percent today while coal's share rose to 55 percent from 44 percent over the same period.

. . . As Users Become More Efficient

Although all other major refined petroleum product categories posted year-over-year increases, it is clear that conservation efforts adopted over the past decade remain an important part of the energy picture. To illustrate, while in the fourth quarter of 1984 inflation-adjusted GNP went up 5.7 percent year-over-year, total energy consumption fell one percent. That means that we are using less and less energy—petroleum, natural gas, coal and others—to produce the same level of output. In the fourth quarter of last year, only about 43,200 BTUs were needed to produce one dollar of real GNP, down from 46,100 the year before. By contrast, in 1973 it took more than 59,000 BTUs.

Reflecting consumers' improving financial positions and the still relatively low cost of gasoline, motorists have been heading for the highways more than they have in the past several years. However, the stepped-up efficiency of the nation's passenger car fleet has once again blunted the rise in gasoline demand. Although the average age of all cars on the road has risen to 7.5 years—the oldest in almost 35 years—the average number of miles traveled per gallon of fuel consumed is estimated to have increased by more than a third since 1973 (see table on page 1).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/22/85		
U.S. Gov'ts and Agencies Owned Outright & RPs	172.718	– .515	+15.682
Loans to Depository Inst.	1.474	+ .081	– 2.272
Float	.541	+ .001	+ .102
Total Reserve Bank Credit	186.007	– 1.960	+16.845
Treasury Deposits with Federal Reserve Banks	3.138	– 3.745	– .882
Currency in Circulation	183.037	+ .137	+11.212
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.187	+ 1.071	+ 5.537
	5/22/85		
Member Bank Reserves:			
Total Reserves Held	40.635	+ .102	+ 3.815
Excess (Deficiency)	.818	+ .115	+ .199
Net Borrowed Reserves	.247	+ .393	– 3.279
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (5/13/85)	577.8	+ 8.6‡	+ 6.6‡
M2 (April '85)	2,427.0	+ 4.7	+ 8.3
M3 (April '85)	3,057.5	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/24/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.15%	7.35%	7.60%
* Federal Agencies	7.60	7.70	8.35
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	8.52	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.62	7.82	8.35

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.50%	Jun.	7.55%
15- 29 days	7.50	Jul.	7.55
30- 59 days	7.50	Aug.	7.55
60- 89 days	7.60	Sep.	7.60
90-179 days	7.65	Oct.	7.65
180-239 days	7.65	Nov.	7.65
240-270 days	7.65		

‡ Industrial Paper—Prime		† Federal Funds Effective Rate	7.50%
30- 89 days	7.48%		
90-120 days	7.55		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817r	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665r	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7r	4.3	10.1
Change in Consumer Prices*	Apr '85n	4.8%	6.0%	4.8%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons) †	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force †	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Apr '85n	$ 3,174	$ 3,156r	$ 2,969
Leading Indicators Composite Index (1967=100)†	Mar '85	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Apr '85	165.4	165.8	162.1
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Mar '85	–$ 11.05	–$ 11.45	–$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Mar '85	$ 578.2	$ 578.9	$ 538.8
Total Business Sales †	Mar '85	$ 420.2	$ 418.7	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Thus, a three percent increase in the number of miles driven in the first three months of the year has translated into only a 1.8 percent rise in gasoline demand compared with a year ago. Undoubtedly, the sharp rebound in automobile sales since 1983 has helped accelerate the rise in fuel efficiency despite carbuyers' renewed interest in larger cars. Mileage for new cars only—domestic and foreign—has nearly doubled over the past decade to an expected 27½ miles per gallon in 1985 models.

Homeowners are not turning up their thermostats, either. Distillate fuel demand, which includes primarily home heating oil and diesel fuel, rose by only one percent in the first four months of the year from a year ago, despite below-normal temperatures during the early winter months and lower heating oil prices. In fact, while it was 14 percent colder during January and February (measured by population-weighted heating degree-days) than in the previous year, heating oil sales rose less than six percent during this period.

Finally, air travel is up, sparked by generous giveaway programs, low airfares and increased overseas travel—a result of the strong dollar. Domestic airlines have flown 13 percent more miles in the first three months of 1985 than during the same time last year. Nevertheless, demand for jet fuel rose only 2.8 percent from year-earlier levels reflecting, once again, the improved efficiency of the nation's air fleet. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/8/85)	155,930	+ 511	+10,627
New York City (5/15/85)	34,001	+ 159	+ 3,604
Commercial Paper (5/15/85)	258,253	+ 752	+44,479

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/8/85)	255,807	+ 916	+ 14,416
New York City (5/15/85)	62,048	– 504	– 1,530

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/8/85)	672,040	– 2,727	+ 64,039
New York City (5/15/85)	152,958	+ 5,238	+ 16,071

Financial Markets

	Friday 5/24/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.39%	– .25	– 2.61
180-Day Bills†	7.75	– .25	– 3.45
Longest Bills†	8.15	– .27	– 3.80
Recent Issues:			
9⅛s 5/31/87 (When Issued)	9.13	NA	
11¼s 3/31/89	9.75	– .23	
11¼s 5/15/95	10.55	– .29	
11¼s 2/15/15	10.83	– .22	
Municipals:			
Bond Buyer–20 Bond Index* (5/23/85)	8.91%	+ .05	– 1.92
Blue List Total ($ Million)	$1,892	+ $140	+ $312
30-Day Visible Supply ($ Million)	$3,185	+ $312	+ $489
Total	$5,077	+ $452	+ $801
Corporates:			
Moody's Aa Composite (5/23/85)	12.12%	– .24	– 2.19
30-Day Visible Supply ($ Million)	$ 508	– $667	– $ 2
Stocks:			
Dow-Jones Averages:			
Industrials	1,301.97	+ 16.63	+ 194.87
Transportation	627.55	+ 4.99	+ 164.79
Utilities	161.98	– 2.77	+ 38.43
65 Stocks	533.55	+ 3.66	+ 103.27
Standard and Poor's 500 Stocks	188.29	+ .87	+ 36.67
N.Y.S.E. Composite Index	108.87	+ .39	+ 21.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	112,944	+10,148	+ 28,616

* 46% Taxable equivalent 16.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/24/85	Week Ago
Overnight	7.38%	8.06%
1 month	7.75	8.06
3 month	7.94	8.19
6 month	8.25	8.44
1 year	8.75	8.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	10.32%	10.60%
Long Term (7 to 15 yrs.)	10.85	10.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/24/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01614	61.9450
Canada	.7293	1.3711
Denmark	.09013	11.0950
France	.1065	9.3875
Germany	.3248	3.0785
Italy	.0005085	1966.50
Japan	.003986	250.85
Mexico	.003968	252.00
Netherlands	.2880	3.4720
Switzerland	.3859	2.5915
U.K.	1.2655	.7902

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, N.Y., June 3-9, 1985.

- Tickets for the Sports House and Grounds for 7 days—$60. Grounds only—$45. Monday and Tuesday (practice rounds)—$5 or $3 per day. Wednesday (the Pro-Am)—$10 or $6. Thursday, Friday, Saturday, Sunday—$18 or $15 each day.
- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
- For more information call (914) 967-5356.

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